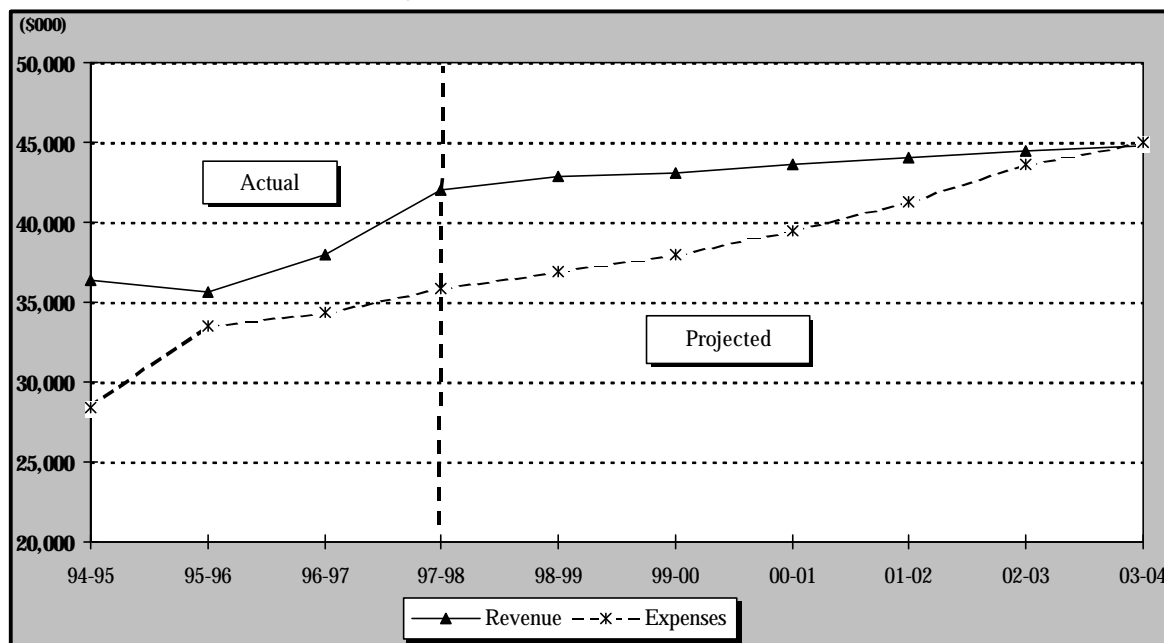




Water/Wastewater Fund: Projected Revenue and Expenses



	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04
Revenue (\$000)										
Charges for Service-Water	21,370	21,468	22,338	23,127	24,640	24,920	25,195	25,381	25,568	25,756
Charges for Service-Wastewater	10,592	10,197	11,612	14,801	14,420	14,585	14,747	14,858	14,968	15,079
Interest Income	1,772	1,835	1,990	2,579	2,600	2,390	2,440	2,620	2,740	2,760
Environmental Impact Fee	1,145	1,230	1,030	0	0	0	0	0	0	0
Land and Facility Rental	0	372	498	490	490	490	490	490	490	490
Loan Repayment	1,487	428	413	397	624	624	624	624	624	624
Other Miscellaneous Revenue	61	96	116	665	82	83	84	84	85	85
Total Revenue	36,428	35,627	37,998	42,060	42,856	43,092	43,579	44,057	44,475	44,794
Expenses (\$000)										
Personal Services	6,225	6,875	7,024	7,031	7,449	7,993	8,474	8,964	9,482	10,031
Materials and Supplies	1,216	2,061	2,046	2,625	2,187	2,280	2,383	2,490	2,602	2,719
Fees and Services	7,625	8,295	9,153	9,063	9,877	9,384	9,804	10,244	10,713	11,193
Travel and Training	41	48	67	65	77	80	84	88	92	96
Depreciation Expense	6,965	7,160	7,960	8,021	8,482	8,990	9,387	9,876	10,505	10,945
Share of 91 st Avenue Depreciation		1,147	553	753	1,230	1,240	1,250	1,260	1,270	1,280
Debt Svc Intrst/Fiscal Agent Fees		4,176	3,909	3,835	4,435	4,755	4,686	4,746	5,203	4,835
Internal Service Charges	867	1,636	1,732	2,457	1,442	1,503	1,571	1,642	1,715	1,793
Indirect Cost Allocations	1,545	2,110	1,904	1,960	1,686	1,757	1,836	1,919	2,005	2,096
Total Expenses	28,398	33,509	34,349	35,810	36,865	37,983	39,475	41,228	43,588	44,986
Net Operating Surplus/(Deficit)	8,030	2,118	3,649	6,249	5,991	5,109	4,104	2,829	887	(192)

Latest rate increase: 1) Water Service-10% increase affecting consumption rates implemented November 1992; 3% environmental fee added January 1994; 2) Sewer Service rates last increased May 1997, which included an average 6% increase for residential customers and new rate structure to reflect strength and volume for commercial and industrial customers.



Water/Wastewater Fund

Fund Structure

Description

The Water/Wastewater Fund is a self-supporting enterprise fund used to account for water and wastewater treatment operations, including debt service. It is financed and operated similarly to a private business and intended to recover costs through user charges. Revenues earned, expenses incurred, and/or net income is appropriated for Capital maintenance, public policy, management control, accountability, or other purposes. Other enterprise funds include the Sanitation and Golf Funds.

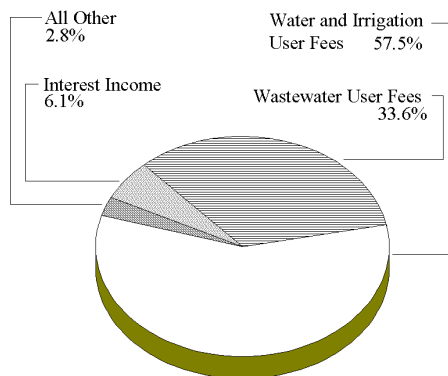
Major Services

This budget provides for:

- Water/Wastewater Administration
- Water Resource Management
- Water Conservation
- Water Quality
- Transmission & Collection
- Technical Services
- Wastewater Reclamation
- Environmental Services
- Customer Services
- Irrigation

Revenue Structure

User fees account for 91.1% or \$39.1 million of the \$42.9 million in total fund revenues in FY 1998-99. Water/Wastewater revenues are derived from Water and Irrigation User Fees (57.5%), Wastewater User Fees (33.6%), Interest Income (6.1%), and All Other (2.8%).



■ Water and Irrigation User Fees

Water and irrigation user (consumption) fees provide \$24.6 million or 57.5% of the total Water/Wastewater Fund revenue in FY 1998-99. This revenue amount reflects an estimated 41,000 accounts for drinking water and 1,146 irrigation water accounts.

■ Wastewater User Fees

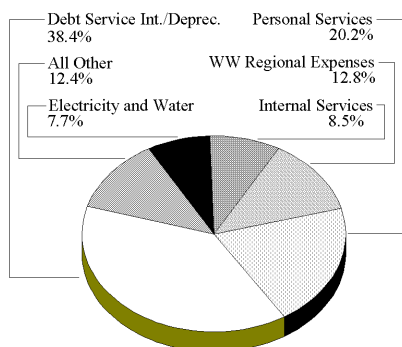
Over 38,000 Wastewater Service accounts are estimated to produce \$14.4 million or 33.6% of the total user fee revenues. Residential wastewater charges are largely driven by water consumption in that monthly billings are based upon a three month Winter average consumption.

■ Interest Income/All Other

Cash balances in the Water/Wastewater Fund are expected to generate \$2.6 million in Interest Income during FY 1998-99, or 6.1% of the Fund's total revenue. Other sources of fund revenue include a loan repayment from the General Fund, land and building rental fees, delinquent payment charges, and miscellaneous fees and charges.

Expenditure Structure

Total estimated operating expenses for FY 1998-99 are \$36.9 million. Together, Debt Service Interest and Depreciation, Personal Services and Wastewater Plant Regional Operating Expenses represent 68.0% of the total operating expenses.



When disaggregated, the composition of fund expenditures is earmarked for Debt Service Interest and Depreciation (38.4%), Personal Services (20.2%), Wastewater Plant Regional Operating Expenses (12.8%), Internal Services (8.5%), Electricity and Water (7.7%), and All Other (12.4%).

■ Debt Service Interest/Depreciation

Debt Service Interest and Depreciation account for 38.4% of total estimated expenses for FY 1998-99, indicative of the capital intensive nature of a water/wastewater operation. Since the Enterprise Funds are presented in this forecast on an accrual basis (GAAP basis), only the interest portion of debt service is included, along with depreciation (rather than debt service principal and capital outlay). Depreciation reflects the annual depreciation expense associated with city-owned capital equipment and facilities, plus Tempe's share of the depreciation expense related to the 91st Avenue Wastewater Treatment Plant



The City plans to issue \$43.5 million in new debt in this fund through FY 2003-04. Water/Wastewater annual debt service peaked at \$14.7 million in FY 1992-93, which included a large principal repayment coming due on a previous debt issue.

■ **Personal Services**

Personal Services represent \$7.4 million or 20.2% of Water/Wastewater operating expenditures. Salaries and wages account for 82.4% of the total Personal Services budget, followed by health insurance at 7.0%, FICA at 6.3%, retirement at 2.8%, and other 1.5%.

Re-engineering efforts and competitiveness studies conducted during FY 1997-98 resulted in the elimination of 3 FTE positions.

■ **Wastewater Plant Regional Operating Expenses**

Tempe participates in an inter-governmental agreement for the construction, operation, and maintenance of jointly used facilities, including the 91st Avenue Wastewater Treatment Plant, Salt River Project Outfall Sewer and the Southern Avenue Interceptor. The City pays for upgrades based on relative sewage flows and strengths.

Expenses associated with the 91st Avenue Plant represent \$4.7 million or 12.8% of the FY 1998-99 total. Excess sewer capacity will continue to be purchased to accommodate increasing flow demand. Planning and cost-benefit assessments are currently underway to estimate the costs associated with additional sewage treatment capacity and available alternatives.

■ **Internal Services**

Internal Services costs for information systems, communications, vehicle maintenance, and indirect charges account for \$3.1 million or 8.5% of FY 1998-99 Water/Wastewater expenses.

■ **Electricity and Water**

Utilities comprise a major expense within this fund, as substantial electricity and water is required to provide these services. For FY 1998-99, electricity and water are budgeted at \$2.8 million, or 7.7% of total expenses.

■ **All Other**

Other major budgeted expenses include \$1.6 million for chemical supplies, \$1.0 million for contingencies, \$455,963 for water quality testing and \$375,000 for contracted services.

Summary

FY 1998-99 estimated operating expenses for the Water/Wastewater Fund are \$36.9 million, a 2.9% or \$1.1 million increase from actual FY 1997-98 expenses. Tempe's shared cost to operate the 91st Avenue Wastewater Treatment Plant is expected to increase by \$1.4 million, while internal services charges to the Fund fell by \$1.3 million. Interest on Debt Service is expected to increase by \$600,000 in FY 1998-99, while inflation accounts for remaining increases. Overall, expenditure growth was held down by re-engineering efforts and competitiveness studies conducted by the Water Management Division.

Revenues for FY 1998-99 are projected to be \$42.9 million, a 1.9% increase over actual FY 1997-98 collections. During FY 1998-99, rate adjustments are planned to bring the Wastewater operation closer to full



cost recovery. The adjustments to occur in FY 1998-99 represent the second year of a planned three year phased-in rate increase.

Trend/Forecast

The sewer rate increase approved by the Council in January 1997 appears to be having the intended effect of eliminating, at least in the short-term, a projected deficit condition in the Water/Wastewater Fund. The primary intent of this rate adjustment was to ensure full cost recovery in the wastewater operation. Additionally, the new rate structure is intended to equitably charge all customers based on the volume and strength of discharges. The January increase was part of the planned three year phased-in sewer rate increase, with the goal of achieving full cost recovery by the third year.

The need for further rate adjustments in the sewer service area will be reviewed annually. Uncertainties still exist regarding the impact of the new usage and "strength-based" rate structure on the major industrial customers. The new rate structure may have the effect of encouraging these customers to reduce discharges or at least alter the strengths of discharges, both of which could substantially reduce revenues. Such changes should produce reductions in the City's shared cost of operating the 91st Avenue facility, although those reductions may not mirror revenue losses. Thus, the long-term outlook for this fund could change substantially depending to large extent on 91st Avenue costs.

As the long range forecast predicts, the Water/Wastewater Fund may enter a deficit condition by the end of the forecast period as the growth in treatment costs outpace revenue growth. For the purposes of the forecast, we have assumed no further rate adjustments. As more data becomes available revealing the longer term impact of the new rate structure, this assumption must be revisited. Throughout the forecast period, pay-as-you-go financing for the Capital Improvements Program is estimated at \$3 million per year, while the impact of capital projects on the operating budget approximates \$250,000 to \$350,000 per year.

Unreserved Retained Earnings

A history of Water/Wastewater Fund balances shows the drawdown that occurred in the early 1990's as the result of pay-as-you-go financing for infrastructure improvements. To illustrate, unreserved retained earnings were \$29.8 million at FYE 89 and were drawn down as low as \$14.0 million in FYE 91, before being built back up to \$41.0 million by FYE 98.



Over the period of this forecast, healthy fund balances should be retained, notwithstanding the impact of compliance driven contingencies. With \$36.9 million in projected FY 1998-99 expenses, the \$41.0 million fund balance provides 111% coverage to operating expenses in this fund, providing a degree of flexibility likely to be required in the future.

FYE	Unreserved Retained Earnings
89	\$29,840,608
90	22,891,993
91	14,310,524
92	18,217,298
93	20,667,194
94	21,671,776
95	24,383,051
96	33,746,270
97	36,796,384
98.	41,020,060
99 est.	40,285,471